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#### PAYPHONE ASSOCIATION

January 7, 2001

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Scott Wigginton Innovative Phone Services, Inc. Salisbury, NC Re: Ex Parte Presentation in Inmate Remand CC Docket No. 96-128 and Wisconsin Proceeding CPD No. 00-01

Dear Ms. Salas:

Magalie Roman Salas, Secretary

The Portals, 445 12th Street, S.W.

Washington, DC 20554

Federal Communications Commission

In accordance with Section 1.1206(b) of the Commission's rules, enclosed are two copies of an ex parte presentation submitted to Ms. Linda Kinney by the North Carolina Payphone Association and the Inmate Calling Service Providers Coalition.

Sincerely,

Vincent Townsend

President

North Carolina Payphone Association Inmate Calling Service Providers Coalition

**Enclosure** 

cc: Linda Kinney

No. of Copies reold OH List ASCOE Ms. Linda Kinney Office of General Counsel Federal Communications Commission 445 12<sup>th</sup> Street, SW Washington, DC 20554



Re:

Inmate Remand CC Docket No. 96-128 Wisconsin Proceeding CPD No. 00-01

Dear Ms. Kinney:

In looking for a solution to achieve fair compensation on local collect calls from county jails, we have always looked for ways to minimize any rate increase on consumers.

The application of the New Services Test will play an absolute critical role in maintaining inmate phone service in county jails. A reasonable rate on our line costs will go a long way in helping keep the rate on local collect calls low to consumers.

It is of vital importance that the New Services Test apply not only to BOCs, but also to all LECs. For example, our phone bills for inmate lines range from \$80 to well over \$100 for all LECs in North Carolina while NST cost based rates should average below \$25. In North Carolina 26% of county jails are in BellSouth's service area and 74% of county jails are in NON-BOC LEC service areas. The number of county jails in NON-BOC LEC areas is high in a number of states. For example, in Wisconsin the number of county jails in NON-BOC LEC areas is over 65% and in South Carolina the number is over 50%.

Because of the importance of this issue in maintaining competition and to keep rates low to the captive market served by inmate phones, the North Carolina Payphone Association has done significant legal research into applying the New Services Test to NON-BOC LECs (attached).

I would like an opportunity to discuss this matter with you at your earliest convenience; I will call you on Monday to arrange an appointment. You can reach me at 800-729-8355 ext. 227 or my cell phone 336-337-7038.

Thank you for your assistance.

Sincerely.

Vincent Townsend, President North Carolina Payphone Association Inmate Phone Service Providers Coalition

VT/bp

CC:

The Honorable Ernest F. Hollings, Senator The Honorable Richard Burr, Congressman

## The Commission Did Not Err In Applying the New Services Test to Non-BOC LECs

In its Payphone Orders, <sup>1</sup> the Commission made clear that the new services test applies to payphone line rates charged by local exchange carriers ("LECs") other than the Bell Operating Companies ("BOCs"). See, e.g., Payphone Reconsideration Order, ¶ 163; Order, DA 97-678 (April 4, 1997). As a matter of law and policy, the Commission was correct in applying the new services test to all local exchange carriers. <sup>2</sup> This decision was well within the Commission's discretion allowed under Section 276, and there is nothing in the record in this proceeding that suggests that the Commission should reconsider its decision.

#### **SUMMARY**

As the Commission itself has previously concluded, Section 276 vests the Commission with broad authority over payphone issues. In Section 276, Congress has directed the Commission to implement a comprehensive scheme to govern payphones based on the touchstones of promoting competition and the widespread deployment of payphones.

It has been demonstrated in previous *ex parte* presentations that, contrary to the assertions of the RBOC Coalition, the express terms of Section 276 apply to intrastate rates sufficient to overcome the restriction on the Commission's jurisdiction contained in Section 2(b) of the Communications Act.<sup>3</sup> Once it is recognized that Section 276 explicitly contemplates authority over intrastate payphone rates, the implementation of Section 276 is a matter that is largely left to the discretion of the Commission. When the overall purpose of Section 276 is considered along with the purpose and intent of each of its constituent provisions, it is clear that the Commission was well within its discretion in applying the new services test requirement to non-BOC LECs.

Section 276(b)(1)(C) requires the application of non-structural safeguards against discrimination which, at a minimum, include the Computer III safeguards to BOCs. One of these safeguards is the new services test, which protects against excessive rates charged to competitors

<sup>&</sup>lt;sup>1</sup> Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, Report and Order, 11 FCC Rcd 20541 (1996) ("First Payphone Order"); Order on Reconsideration, 11 FCC Rcd 21233, ¶ 163 (1996) ("Payphone Reconsideration Order") (collectively, the "Payphone Orders").

<sup>&</sup>lt;sup>2</sup> For purposes of this discussion, the term "LEC" is used to refer to local exchange companies other than small, rural, rate-of-return local exchange companies. As discussed below in Section VI, the compliance of these companies with the rate requirements of the Payphone Orders may raise special concerns which should be dealt with separately with a more fully-developed record.

<sup>&</sup>lt;sup>3</sup> See, e.g., Letter to Dorothy Attwood dated March 20, 2001, from Albert Kramer and Robert Aldrich, Ex Parte Presentation.

for bottleneck services. Therefore, as to BOCs, the Commission is required to adopt the new services test as one of the means of implementing (b)(1)(C).

As to non-BOC LECs, the implementation of Section 276(b)(1)(A) and (b)(1)(B) directly implicates and is founded on, among other things, the elimination of the potential for LECs to impose excessive payphone line and usage rates on their competitors. Given (i) the new services test requirement in (b)(1)(C), (ii) the fact that non-BOC LECs serve a significant percentage of the nation both in terms of total access lines and geographic territory, (iii) the clear expression of Congressional intent that the benefits of Section 276 accrue to the public at large rather than a small subset of the public, and (iv) the potential frustration of the requirements of (b)(1)(A) and (b)(1)(B) in the absence of the new services test, the Commission was well within its discretion in applying the new services test to non-BOC LECs.

#### I. SECTION 276 DIRECTS THE FCC TO ESTABLISH A COMPREHENSIVE SCHEME TO GOVERN PAYPHONE SERVICES

Read as a whole and in its context as required by standard principles of statutory construction,<sup>4</sup> Section 276 gives the Commission broad authority over payphones.

Section 276(b)(1) identifies the general goals promoting competition among payphone service providers ("PSPs") and promoting the widespread deployment of payphone services. These general goals, read together with the specific directives of the statute, give the Commission considerable latitude to adopt particular mechanisms to achieve the overall goals of the statute, as the Commission itself has noted in the context of its adoption of a per-call compensation plan:

Section 276 gives the Commission significant authority to 'take all actions necessary' to 'promote the widespread deployment of payphone services to the benefit of the general public' and, more specifically, to ensure fair compensation for 'each and every completed intrastate and interstate call.' In enacting Section 276 after Section 2(b), and squarely addressing the issue of interstate and intrastate jurisdiction, we find that Congress intended for Section 276 to take precedence over any contrary implications based on Section 2(b). . . . The exception in Section 276 is broad. As stated in the Conference Report: 'In crafting implementing rules, the Commission is not bound to adhere to existing mechanisms or procedures established for general regulatory purposes in other provisions of the Communications Act.'

<sup>&</sup>lt;sup>4</sup> See, e.g., Food and Drug Admin. v. Brown & Williamson Tobacco Corp., 529 U.S. 120, 132, 120 S. Ct. 1291, 1300-01, 146 L. Ed. 2d 121, 134 (2000).

Congress gave us the requisite authority in Section 276 and directed us to adopt a comprehensive plan for payphones, and we did so in the *Report and Order*. Congress also provided that '[t]o the extent any State requirements are inconsistent with the Commission's regulations, the Commission's regulations on such matters shall preempt such State requirements.' . . . [W]e conclude that Section 276(c) eliminates any question about our authority to adopt a particular compensation plan, even if it contradicts existing state regulations."

Payphone Reconsideration Order, at ¶ 57 (emphases added).

This broad and coherent view of the statutory charge of Section 276 is consistent with the well-settled principle of statutory interpretation that an agency should not "confine itself to examining a particular statutory provision in isolation" but should "interpret the statute 'as a symmetrical and coherent regulatory scheme,' . . . and 'fit, if possible, all parts into an harmonious whole.""<sup>5</sup>

# II. THE FULL IMPLEMENTATION OF SECTIONS 276(b)(1)(A) AND (b)(1)(B) REQUIRES THE COMMISSION TO ADDRESS THE POTENTIAL FOR LECS TO CHARGE EXCESSIVE INTRASTATE PAYPHONE LINE RATES

In addition to the more general goal of Section 276 to establish a nationwide competitive marketplace for payphones, the full implementation of the requirements of Sections 276(b)(1)(A) and 276(b)(1)(B)—which apply specifically to both BOCs and non-BOC LECs <u>and</u> to intrastate services—is closely linked to the elimination of the potential for LECs to impose excessive intrastate payphone line and usage rates on their competitors in the payphone marketplace.

#### A. Section 276(b)(1)(A)

Section 276(b)(1)(A) directs the Commission to establish a per call compensation plan "to ensure that all payphone service providers are fairly compensated for each and every completed intrastate and interstate call using their payphone." This provision applies to all

<sup>&</sup>lt;sup>5</sup> Food and Drug Admin., 529 U.S. at 132, 120 S.Ct. at 1300-01, quoting Gustafson v. Alloyd Co., 513 U.S. 561, 569, 131 L.Ed. 2d 1, 115 S. Ct. 1061 (1995), and FTC v. Mandel Brothers, Inc., 359 U.S. 385, 389, 3 L. Ed. 2d 893, 79 S.Ct. 818 (1959).

payphones, regardless of whether they are located in BOC or non-BOC LEC territory.

In the *Payphone Orders*, the Commission found that to establish fair compensation for local coin calls it was necessary to remove obstacles to competition among PSPs and to let market forces set compensation levels by deregulating local coin calling rates. However, the Commission recognized that "incumbent LECs may have an incentive to charge unreasonably high prices" for services to PSPs seeking to deploy and maintain payphones. Because the LEC bill for payphone lines and usage is the single largest cost element for PSPs seeking to deploy and maintain payphones, unless brought to competitive levels by the Commission, these artificially high, non-competitive line and usage rates would undermine the competitive market Congress sought to achieve.

Therefore, there is a clear nexus between cost-based payphone line rates and fair payphone compensation in general and, more specifically, the market-based fair payphone compensation mechanism adopted by the Commission. As it reasonably concluded in its *Payphone Orders*, the Commission could not create an effective market-based "fair compensation" mechanism without taking effective steps to prevent excessive payphone line and usage rates.

Congress placed no limit on the mechanisms the Commission is authorized to use to ensure that PSPs are "fairly compensated"—and specifically instructed the Commission to adopt a system of compensation that "promotes competition and widespread payphone deployment." 47 U.S.C. § 276(b). Moreover, the committee reports make clear that "in crafting implementing rules, the commission is not bound to adhere to existing mechanisms or procedures established for general regulatory purposes in other provisions of the Communications Act." *House Report*, at 88; *Conference Report*, at 158. Congress clearly intended the Commission to use whatever tools are necessary to ensure that competition effectively regulates the amount of intrastate and interstate payphone compensation.

The application of the new services test to BOCs but not to non-BOC LECs would undermine the compensation mechanism established by the Commission and would directly impede the ability of PSPs in areas served by non-BOC LECs to receive "fair compensation" for each intrastate and interstate call as is required by Section 276(b)(1)(A).

#### B. Section 276(b)(1)(B)

<sup>&</sup>lt;sup>6</sup> First Payphone Order, ¶ 146.

<sup>&</sup>lt;sup>7</sup> See, e.g., In the matter of Implementation of the Pay Telepone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket 96-128, Third Report and Order, and Order on Reconsideration of the Second Report and Order, FCC 99-7, at ¶ 191 (Released: Feb. 4, 1999).

Section 276(b)(1)(B) directs the Commission to discontinue the intrastate and interstate carrier access charge payphone service elements and payments in effect on the date of enactment, and all intrastate and interstate payphone subsidies from basic exchange and exchange access revenues, in favor of a compensation plan as specified in section 276(b)(1)(A). This provision applies to both BOCs and non-BOC LECs because, under the regime existing prior to the 1996 Act, both BOCs and non-BOC LECs received subsidies to their payphone service from carrier access charges and basic exchange and exchange access services.

In considering this requirement, the Commission concluded that the best way to remove subsidies to payphone service from access charges and basic exchange and exchange access revenues was to treat LEC payphones as deregulated and detariffed CPE. This treatment was consistent with the Commission's deregulation of CPE in its *Computer II* proceeding and served the purpose of ensuring that the costs associated with regulated services would be separated from the competitive provision of the equipment used in conjunction with those services. The specific means by which deregulation would be accomplished would include paper transfers on each LEC's regulatory accounts and unbundling of the underlying transmission service from the CPE itself. As to the latter, the Commission required that LECs offer individual transmission services to PSPs under nondiscriminatory, tariffed offerings. Consistent with *Computer II*, in order to prevent improper cross-subsidization between the regulated transmission service and the de-regulated CPE and to counter the LECs' "incentive to charge their competitors unreasonably high prices for these services," the Commission required that the unbundled payphone lines be reviewed for compliance with the new services test. 11

The Commission appropriately and reasonably recognized in implementing 276(b)(1)(B) that the elimination of subsidies to the LEC provision of payphone service necessarily entailed changing the regulatory treatment of the LEC payphone assets and unbundling these assets from the local exchange network. In unbundling the payphone CPE, in light of the pro-competitive goals of Section 276, it was necessary to ensure that unbundled line was set at a rate that would

<sup>&</sup>lt;sup>8</sup> First Payphone Order, ¶ 142.

<sup>&</sup>lt;sup>9</sup> Amendment of Section 64.702 of the Commission's Rules and Regulations (Second Computer Inquiry), 77 FCC 2d 384, 445 (1980) ("Computer II"), modified on recon., 84 FCC2d 50 (1981), modified on further recon., 88 FCC2d 512 (1981), aff'd sub nom. Computer and Communications Industry Ass'n v. FCC, 693 F2d 198, cert. denied, 462 US 938 (1983).

 $<sup>^{10}</sup>$  First Payphone Order,  $\P\P$  142 and 146.

<sup>&</sup>lt;sup>11</sup> Id., at ¶ 146. In addition to Section 276, the Commission specifically relied on its independent authority flowing from Sections 201 and 202 of the Communications Act, as well as its previous decisions in the Computer II proceeding, in adopting these requirements. See id. These other provisions provide an independent basis for the Commission's application of the new services test to non-BOC LECs.

not allow LECs to impose excessive payphone line and usage rates on independent PSPs. This action was entirely consistent with and implicated by the specific directive of Section 276(b)(1)(B) read in the context of the statute as a whole.

# III. SECTION 2(b) OF THE COMMUNICATIONS ACT DOES NOT PRECLUDE THE COMMISSION FROM APPLYING THE NEW SERVICES TEST TO NON-BOC LECs

The appropriate interpretation of the jurisdictional limitation of Section 2(b) in light of the grant of authority over traditionally intrastate issues in the 1996 Act was recently considered by the Supreme Court in AT&T Corporation v. Iowa Utilities Board, 525 U.S. 366, 119 S.Ct. 721, 142 L.Ed.2d 835 (1999). There, the Court concluded that the Commission's general rulemaking authority under Section 201(b), 47 U.S.C. § 201(b), extended to implementation of the 1996 Act, even as to intrastate issues: "Since Congress expressly directed that the 1996 Act, along with its local-competition provisions, be inserted into the Communications Act of 1934, the Commission's rulemaking authority would seem to extend to implementation of the local-competition provisions." Id., 425 U.S. at 379, 119 S.Ct. at 729 (citation omitted). The effect of this, the Court concluded, was that "§ 201(b) explicitly gives the FCC jurisdiction to make rules governing matters to which the 1996 Act applies." Id., 425 U.S. at 380, 119 S.Ct. at 730 (emphasis in original).

In concluding that the Commission's rulemaking authority goes hand-in-hand with its statutory authorization under the 1996 Act, the Court explicitly rejected an argument, similar to that advanced in this proceeding by the RBOC Coalition, that FCC jurisdiction over intrastate matters was limited to the "few [intrastate] matters" as to which the Act explicitly conferred jurisdiction on the Commission. *Id.*, 425 U.S. at 380, 119 S.Ct. at 730. In rejecting this argument, the Court held that once it is determined that a statutory provision applies explicitly to intrastate matters, the FCC has general jurisdiction under Section 201(b) to adopt rules to fully implement the statutory directive. *Id*.

Therefore, under *Iowa Utilities Board*, in order to overcome the jurisdictional "fence" of Section 2(b) when construing a provision of the 1996 Act, it is necessary only to find that the provision straightforwardly applies to intrastate matters. Here, there can be no question but that the express terms of Section 276 apply to intrastate rates sufficient to overcome the restriction on the Commission's jurisdiction contained in Section 2(b):<sup>12</sup>

<sup>&</sup>lt;sup>12</sup> See, e.g., Letter to Dorothy Attwood from Albert Kramer and Robert Aldrich, dated March 20, 2001, Ex Parte Presentation; Response of APCC to the ROBCs' Analysis of the Scope of Commission Jurisdiction Over Intrastate Payphone Line Rates, Ex Parte Presentation (Nov. 5, 2001).

- As discussed above, the two specific provisions, read in the context of Section 276 as a whole, giving the Commission the authority to apply the new services test to non-BOC LECs—Section 276(b)(1)(A) and (b)(1)(B)—apply without question to intrastate matters.
- \* The District of Columbia Circuit Court of Appeals has confirmed the explicit intrastate application of Section 276, as well as the Commission's exercise of authority over intrastate payphone rates, in *Illinois Public Telecommunications Ass'n v. FCC*, 117 F.3d 555 (D.C. Cir. 1997), cert. denied Virginia State Corporation Commission v. FCC, 523 U.S. 1046 (1998).
- \* Six of the eight substantive provisions of Section 276 have a clear application to intrastate services. Namely, Sections 276(b)(1)(A) (per call compensation plan) and (b)(1)(B) (elimination of subsidies) explicitly use the word "intrastate" to describe their scope. Four other provisions that do not use the word "intrastate" use other language that indisputably entails an intrastate application. See Sections 276(a)(1) (elimination of subsidies from exchange operations), (b)(1)(E) (right to negotiate with location owner regarding intraLATA carrier), (b)(1)(D) (right of BOCs to negotiate with location owners), and (b)(1)(C) (state preemption).
- \* Section 276(c) automatically preempts state requirements that are inconsistent with the Commission's regulations under Section 276. There would be no need for this provision if Congress had not intended that Section 276 be applied to intrastate matters.

In considering similar clear expressions of intrastate authority in *Iowa Utilities Board*, the Court noted the inescapable fact that Congress purposefully altered the regulatory landscape with the 1996 Act: there can be no question "whether the Federal Government has taken the regulation of local telecommunications competition away from the States . . . [because] it unquestionably has." *Id.*, 525 U.S. at 378 n. 6, 119 S.Ct. 721. The effect of this regulatory realignment of regulatory responsibility over competitive telecommunications issues is that, after the passage of the 1996 Act, "[Section 2(b)] may have less practical effect . . . because Congress, by extending the Communications Act into local competition, has removed a significant area from the States' exclusive control." 525 U.S. at 381 n. 8, 119 S.Ct. 721.

Likewise, by incorporating Section 276 in the 1996 Act, Congress has purposefully intruded on an area formerly subject to state regulation—i.e., the competitive payphone market. Similar to the local competition provisions of the 1996 Act, Section 276 has fundamentally "altered the regulatory landscape" of traditional payphone service and has empowered the Commission to adopt comprehensive rules and regulations governing payphones.

#### IV. ONCE JURISDICTION OVER INTRASTATE RATES IS ESTABLISHED, THE

#### COMMISSION HAS DISCRETION TO IMPLEMENT THE DIRECTIVES OF SECTION 276

Once the Commission's jurisdiction is established over intrastate matters, the Commission is entitled to use its informed, expert discretion to implement the intent of Section 276 with respect to the application of the new services test. Under the *Chevron* analysis, a court first asks "whether Congress has directly spoken to the precise question at issue," in which case it "must give effect to the unambiguously expressed intent of Congress." If, however, the "statute is silent or ambiguous with respect to the specific issue," the court moves to the second step and defers to the agency's interpretation as long as it is "based on a permissible construction of the statute," and is "reasonable in light of the Act's text, legislative history, and purpose." 15

In reviewing an agency's construction of an authorizing statute, the agency's interpretation is entitled to substantial deference because "the responsibilities for assessing the wisdom of . . . policy choices and resolving the struggle between competing views of the public interest are not judicial ones, and because of the agency's greater familiarity with the ever-changing facts and circumstances surrounding the subjects regulated." As long as the agency's interpretation is reasonable, a court must affirm it "regardless whether there may be other reasonable, or even more reasonable, views."

In *Chevron*, the Supreme Court's deferential review was a result of its recognition that "[t]he power of an administrative agency to administer a congressionally created . . . program necessarily requires the formulation of policy and the making of rules to fill any gap left, implicitly or explicitly, by Congress." When an agency exercises the authority expressly delegated to it by Congress within the limits of the Constitution and its jurisdiction, its determination is "binding in the courts unless procedurally defective, arbitrary or capricious in

<sup>&</sup>lt;sup>13</sup> See Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc., 467 U.S. 837, 104 S.Ct. 2778, 81 L.Ed.2d 694 (1984).

<sup>&</sup>lt;sup>14</sup> *Id.* at 842-43, 104 S.Ct. 2778.

<sup>&</sup>lt;sup>15</sup> Id. at 843, 104 S.Ct. 2778. See also Global Crossing Telecommunications, Inc. v. F.C.C., 259 F.3d 740, 744 (C.A.D.C. 2001) (affirming Commission's decision to rely on certification of LEC that it has discontinued subsidies to trigger eligibility to receive per-call compensation from IXCs as permissible implementation of Section 276).

<sup>&</sup>lt;sup>16</sup> AT&T Corp. v. FCC, 220 F.3d 607, 621 (D.C. Cir. 2000) (quoting FDA v. Brown & Williamson Tobacco Corp., 529 U.S. 120, 120 S.Ct. 1291, 1300, 146 L.Ed.2d 121 (2000) (internal quotation marks and citation omitted)).

<sup>&</sup>lt;sup>17</sup> Id. (quoting Serono Lab., Inc. v. Shalala, 158 F.3d 1313, 1321 (D.C.Cir.1998)).

<sup>&</sup>lt;sup>18</sup> Chevron, 467 U.S. at 843 (quoting Morton v. Ruiz, 415 U.S. 199, 231 (1974)).

substance, or manifestly contrary to the statute." The Supreme Court has acknowledged that Congress may also implicitly delegate interpretive authority on a particular statute to an agency. The existence of an implicit delegation is apparent in circumstances in which "Congress would expect the agency to be able to speak with the force of law when it addresses ambiguity in the statute."

The issue of what *mechanism* should be employed to protect against the potential for LECs to charge excessive payphone line and usage rates to their payphone competitors is fundamentally a policy decision that *Chevron* vests within the discretion of the Commission.

#### V. THE COMMISSION WAS WELL WITHIN ITS DISCRETION TO APPLY THE NEW SERVICES TEST TO NON-BOC LECS

Once it is determined that Section 276 applies to intrastate matters in general (see Section III above) and, more specifically, to the payphone line rates charged to PSPs (as is done directly as to BOCs in 276(b)(1)(C) by reference to the Computer III safeguards), the Commission is entitled to deference in implementing the mandate of Section 276. The Commission's decision to apply the new services test to non-BOC LECs was well within its discretion.

#### A. Non-BOC LECs Constitute a Significant Portion of the Telecommunication Market

Perhaps most importantly, non-BOC LECs constitute a significant portion of the telecommunications market both in terms of access lines and geographical territory served.<sup>22</sup>

There are approximately 1,200 LECs that are not BOCs. These companies include several large, price cap regulated companies, including Aliant Communications Company, Cincinnati Bell Telephone Company, Citizens Telecommunications Companies, Frontier Communications of Minnesota and Iowa and Frontier Telephone of Rochester, Sprint Local operating companies, Valor, and Verizon's former GTE operating companies.

According to statistics compiled by the FCC, at least 18% of total independent payphones

<sup>&</sup>lt;sup>19</sup> United States v. Mead Corp., 121 S. Ct. 2164, 2171 (2001) (citations omitted).

<sup>&</sup>lt;sup>20</sup> See id. at 2172; Chevron, 467 U.S. at 844.

<sup>&</sup>lt;sup>21</sup> *Id.* at 2172.

<sup>&</sup>lt;sup>22</sup> For purposes of this discussion, it is assumed that Verizon's former GTE operating subsidiaries would be treated as non-BOC LECs. See 47 U.S.C. § 153(4).

are deployed in non-BOC LEC territory.<sup>23</sup> The actual number of independent payphones in non-BOC LEC territory is actually greater than the amount shown on <u>Attachment 1</u> due to the mischaracterization of all Verizon operating subsidiaries as BOCs. If it is assumed that one-half of the payphones in former GTE operating company territory are independent-owned, the percentage of independent payphones deployed in non-BOC LEC territory increases to over 30%.

In individual states, the deployment of independent payphones in non-BOC LEC territory is substantial. For example, in North Carolina when you include the 1,413 independent PSP phones in the GTE's/Verizon area, approximately 60% of independent payphones are in non-BOC LEC territory. In Wisconsin, if you assume that 50% of the total payphones in GTE/Verizon service area are independent-owned, over 64% of independent payphones are deployed in non-BOC LEC territory.

The geographic areas served by non-BOC LECs is quite substantial, as demonstrated by the maps attached hereto as <u>Attachment 2</u>. Significantly, non-BOC LECs typically serve less urban areas in the nation. By not extending the protection against excessive line and usage rates afforded by the new services test to non-BOC LECs, the Commission would deny the benefits of a fully-deregulated, pro-competitive marketplace for payphone services in these areas.

# B. The Comprehensive Scheme Established in Section 276 Would Be Eviscerated if the Statute is Read to Exclude Payphones in Non-BOC LEC Territory

While Section 276 does not directly require the application of the new services test to non-BOC LECs, it would eviscerate the scheme envisioned by Congress in Section 276 if the new services test is applied to BOCs but not to non-BOC LECs.

As noted, Section 276(b)(1)(C) does require the application of the new services test to BOCs by referencing the Commission's Computer III safeguards. One of these safeguards is the cost-based new services test, which was applied to "Open Network Architecture" services in order to prevent indirect LEC discrimination against competing service providers.<sup>24</sup>

However, it is clear that the intent of Section 276 is to promote competition and the widespread deployment of payphones throughout the nation, not just in the specific territory currently served by the BOCs. Congress could not have made this any clearer in Section

<sup>&</sup>lt;sup>23</sup> See <u>Attachment 1</u>. Trends in Telephone Service, Industry Analysis Division Common Carrier Bureau, FCC, August 2001, Table 8.5.

<sup>&</sup>lt;sup>24</sup> Amendments of Part 69 of the Commission's Rules Relating to the Creation of Access Charge Subelements for Open Network Architecture, Report and Order & Order on Further Reconsideration & Supplemental Notice of Proposed Rulemaking, 6 FCC Rcd 4524 (1991).

276(b)(1) when it directed the Commission to implement regulations for this purpose "to the benefit of the general public". It would make no sense for Congress to have intended to apply the benefits and protections of the comprehensive statutory scheme set forth in Section 276 to payphones in BOC territory but not to payphones in non-BOC LEC territory.

Likewise, as discussed above in Section II, the full implementation of the requirements of Sections 276(b)(1)(A) and 276(b)(1)(B)—which apply specifically to non-BOC LECs and to intrastate services—is closely linked to the elimination of the potential for LECs to impose excessive intrastate payphone line and usage rates on their competitors in the payphone marketplace. The failure to address this issue would serously undermine the implementation of 276(b)(1)(A) and (b)(1)(B).

# VI. THE ISSUE OF THE APPLICATION OF THE RATE REQUIREMENTS OF THE *PAYPHONE ORDERS* TO SMALL, RURAL LECs SHOULD BE DEALT WITH SEPARATELY

As stated above in note 2, the discussion contained herein specifically excludes small, rate-of-return LECs. These companies typically do not have cost-based cost studies available to them for use in making the individualized showing required by the new services test. Nonetheless, such carriers are not excluded from the protections of Section 276, so they should not be categorically exempted from this statute. However, given the special concerns raised by these companies and the lack of information in the record specific to these concerns, the Commission should reserve the issue of the application of the requirements of the Payphone Orders to such companies for future ruling.<sup>25</sup>

The Commission has recognized that small carriers often have limited resources and have financial transactions that are smaller and fewer in number than the larger incumbent LECs. For example, in the *Joint Cost Order*, the Commission applied cost allocation standards and affiliate transactions rules to all local exchange carriers, but exempted the smaller carriers from the potentially burdensome enforcement provisions, e.g., CAM annual filing, an annual independent audit, and reporting requirements. See Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities, Report and Order, CC Docket No. 86-111, 2 FCC Rcd 1298, 1330-31, ¶¶ 254-56 (1987) (Joint Cost Order), recon., 2 FCC Rcd 6283 (1987), further recon., 3 FCC Rcd 6701 (1988), aff'd sub nom. Southwestern Bell Corp. v. FCC, 896 F.2d 1378 (D.C.Cir. 1990).

Table 8.5
Number of Payphones Owned by LECs and Independent Operators - Continued
(As of March 31, 2001)

	RBOC	lerritories	All Other LE	C Territories	Total	Total	Grand
State	LEC Owned	Independent	LEC Owned	Independent	LEC Owned	Independent	Total
Alabama	13,158	6,937	467	1,332	13,625	8,269	21,894
Alaska	0	0	1,217	3,377	1,217	3,377	4,594
Arizona	18,788	15.031	803	2,704	19,391	17,735	37,326
Arkansas	10,216	1,563	1,675	1,552	11,891	3,115	15,006
California	137,535	103,245	1,885	3,915	139,420	107,160	246.580
Colorado	15,380	9,363	196	924	15,576	10,180	25,863
Connecticut	19,835	4,360	1 0	2	19,835	4,362	24,197
Delaware	4,473	960	łő	ő	4,473	960	5,433
District of Columbia	7,362	1,273	1 6	0	7,362	1,273	8,635
Florida	42,019	45,822	7,714	11.658	49,733	57,480	107.213
Georgia	27,920	20,403	3,532	6,367	31,452	26,770	58,222
Hawaii	7,068	1,128	0	0,007	7.068		,
Idaho	3,623	2,304	260	248	3,883	1,128	8,196 6,435
Illinois	62,280	29,263				2,552	
Indiana	26,901	7.766	1,515	2,087	63,795 29,088	31,350	95,145
lowa	6,307	2.837	2,187 705	1,260		9,026	38,114
Kansas	11,707	2,272	950	306	7,012	3,143	10,155
			1	952	12,657	. 3,224	15,881
Kentneky Louisiana	9,055	8,021 11,343	2,263 156	1,905	11,318	9,926	21,244
Maine	5,937	682	. 50	1,421	13,526	12,764	26,290
	31,492	6,233	49	<u> 311</u> 9	5,987	993	6,980
Maryland			1 49	•	31,541	6,242	37,783
Massachusetts	39,148	10,581		1,239	39,156	11,820	50,976
Michigan	48,830	18,735	. 709	1,087	49,539	19,822	69,361
Minnesota	11,279	4,528	2,438	2,376	13,717	6,904	20,621
Mississippi	10,115	4,495	186	499	10,301	4,994	15,295
Missouri	23,827	6,842	2,906	2,968	26,733	9,810	36,543
Montana	2,615	1,426	609	1,023	3,224	2,449	<b>5,673</b>
Nebraska	3,187	1,703	637	4,012	3,824	5,715	9,539
Nevada	3,514	1,716	2,016	9,760	<i>5,5</i> 30	11,476	17,006
New Hampshire	5,963	1,565	103	220	6,066	1,785	7,851
New Jersey	66,213	16,991	1,937	1,392	68,150	18,383	86,533
New Mexico	5,951	3,455	302	670	6,253	4,125	10,378
New York	103,168	52,436	11,284	8,157	114,452	60,593	175,045
North Carolina	13,434	10,176	8,314	11,674	21,748	21,850	43,598
North Dakota	650	763	73	817	723 ·	1,580	2,303
Ohio	41,298	10,924	9,458	7,170	50,756	18,094	68,850
Oklahoma	15,302	4,600	1,343	1,076	16,645	5,676	22,321
Oregon	10,676	7,580	486	2,038	11,162	9,618	20,780
Pennsylvania	52,279	20,595	6,765	4,570	59,044	25,165	84,209
Rhode Island	5,126	2,368	00	793	5,126	3,161	8,287
South Carolina	10,850	9,097	2,159	3,947	13,009	13,044	26,053
South Dakota	2,343	785	410	826	2,753	1,611	4,364
Tennessee	14,458	11,846	2,618	2,671	17,076	14,517	31,593
Texas	75,275	51,552	2,013	6,407	77,288	57,959	135,247
Utah	7,398	3,246	156	578	7,554	3,824	11,378
Vermont	2,865	398	44	286	2,909	684	3,593
Virginia	30,899	13,757	2,523	2,199	33,422	15,956	. 49,378
Washington	20,521	10,566	792	2,395	21,313	12,961	34,274
West Virginia	7,901	1,751	665	700	8,566	2,451	11,017
Wisconsin	19,454	5,578	1,552	6,039	21,006	11,617	32,623
Wyoming	2,412	917	269	167	2,681	1,084	3,765
Totals	1,131,377	571,778	88,399	128,086	1,219,776	699,864	1,919,640

<sup>&</sup>lt;sup>1</sup> Although Bell Atlantic and GTE had not merged as of March 31, 1999, their data were combined so that comparisons across years could be made. Source: Raw data provided by National Payphone Clearinghouse. Rollups performed by the Industry Analysis Division of the FCC.

															% Indep in
		C Territo			All Othe	_			Total		Total	- 1	Grand	Total	LEC Owned
State	LEC Owned		ndependent		LEC Owned	%	Independent	%	LEC Owned	%	Independent		Total	Independents	Areas
Alabama	13158	65%	6937	35%	467	26%	1332	74%	13625	62%	8269	38%	21894	8269	16%
Alaska	0	0%	0	0%	1217	26%	3377	74%	1217	26%	3377	74%	4594	3377	100%
Arizona	18788	56%	15031	44%	803	23%	2704	77%	19591	52%	17735	48%	37326	17735	15%
Arkansas	10216	87%	1563	13%	1675	52%	1552	48%	11891	79%	3115	21%	15006	3115	50%
California	137535	57%	103245	43%	1885	33%	3915	68%	139420	57%	107160	43%	246580	107160	4%
Colorado	15380	62%	9363	38%	196	18%	924	83%	15576	60%	10287	40%	25863	10287	9%
Connecticut	19835	82%	4360	18%	0	0%	2	100%	19835	82%	4362	18%	24197	4362	0%
Delaware	4473	82%	960	18%	0	0%	0	0%	4473	82%	960	18%	5433	960	0%
Dist. Of Columbia	7362	85%	1273	15%	0	0%	0	0%	7362	85%	1273	15%	8635	1273	0%
Florida	42019	48%	45822	52%	7714	40%	11658	60%	49733	46%	57480	54%	107213	57480	20%
Georgia	27920	58%	20403	42%	3532	36%	6367	64%	31452	54%	26770	46%	58222	26770	24%
Hawaii	7068	86%	1128	14%	0	0%	0	0%	7068	86%	1128	14%	8196	1128	0%
Idaho	3623	61%	2304	39%	260	51%	248	49%	3883	60%	2552	40%	6435	2552	10%
illinois	62280	68%	29263	32%	1515	42%	2087	58%	63795	67%	31350	33%	95145	31350	7%
Indiana	26901	78%	7766	22%	2187	63%	1260	37%	29088	76%	9026	24%	38114	9026	14%
lowa	6307	69%	2837	31%	705	70%	306	30%	7012	69%	3143	31%	10155	3143	10%
Kansas	11707	84%	2272	16%	950	50%	952	50%	12657	80%	3224	20%	15881	3224	30%
Kantucky	9055	53%	8021	47%	2263	54%	1905	46%	11318	53%	9926	47%	21244	9926	19%
Louisiana	13370	54%	11343	46%	156	10%	1421	90%	13526	51%	12764	49%	26290	12764	11%
Maine	5937	90%	682	10%	50	14%	311	86%	5987	86%	993	14%	6980	993	31%
Maryland	31492	83%	6233	17%	49	84%	9	16%	31541	83%	6242	17%	37783	6242	0%
Massachusetts	39148	79%	10581	21%	8	1%	1239	99%	39156	77%	11820	23%	50976	11820	10%
Michigan	48830	72%	18735	28%	709	39%	1087	61%	49539	71%	19822	29%	69361	19822	5%
Minnesota	11279	71%	4528	29%	2438	51%	2376	49%	13717	67%	6904	33%	20621	6904	34%
Mississippi	10115	69%	4495	31%	186	27%	499	73%	10301	67%	4994	33%	15295	4994	10%
Missouri	23827	78%	6842	22%	2906	49%	2968	51%	26733	73%	9810	27%	36543	9810	30%
Montana	2615	65%	1426	35%	609	37%	1023	63%	3224	57%	2449	43%	5673	2449	42%
Nebraska	3187	65%	1703	35%	637	14%	4012	86%	3824	40%	5715	60%	9539	5715	70%
Nevada	3514	67%	1716	33%	2016	17%	9760	83%	5530	33%	11476	67%	17006	11476	85%
New Hampshire	5963	79%	1565	21%	103	32%	220	68%	6066	77%	1785	23%	7851	1785	12%
New Jersey	66213	80%	16991	20%	1937	58%	1392	42%	68150	79%	18383	21%	86533	18383	8%
New Mexico	5951	63%	3455	37%	302	31%	670	69%	6253	60%	4125	40%	10378	4125	16%
New York	103168	66%	52436	34%	11284	58%	8157	42%	114452	65%	60593	35%	175045	60593	13%
North Carolina	13434	57%	10176	43%	8314	42%	11674	58%	21748	50%		50%	43598	21850	53%
North Dakota	650	46%	763	54%	73	8%	817	92%	723	31%		69%	2303	1580	52%
Ohio	41298	79%	10924	21%	9458	57%	7170	43%	50756	74%		26%	68850	18094	40%
Oklahoma	15302	77%	4600	23%		56%	1076	44%	16645	75%		25%	22321	5676	19%
Oregon	10676	58%	7580	42%	1	19%	2038	81%	11162	54%		46%	20780	9618	21%
Pennsylvania	52279	72%	20595	28%	I	60%	4570	40%	59044	70%		30%		25165	18%
Rhode Island	5126	68%	2368	32%	0	0%	793	100%		45%		55%	8287	6161	13%
South Carolina	10850	54%	9097	46%	<del></del>	35%		65%	13009	50%		50%		13044	30%
South Dakota	2343	75%	785	25%		33%		67%	2753	63%		37%	4364	1611	51%
Tennessee	14458	55%	11846	45%	2618	49%	2671	51%	17076	54%		46%	31593	14517	18%
Texas	75275	59%	51552	41%	1	24%	6407	76%	77288	57%		43%	135247	57959	11%
Utah	7398	70%	3246	30%	h	21%		79%	7554	66%		34%		3824	15%
Vermont	2865	88%	398	12%	44	13%		87%	2909	81%		19%	3593	684	42%
	30899	69%	398 13757	31%	1	53%		47%	33422	68%		32%	49378	15956	14%
Virginia						25%		75%	21313	62%		38%	34274	12961	18%
Washington	20521	66%	10566	34%	1							22%		2451	299
West Virginia	7901	82%	1751	18%		49%		51%	8566	78%		36%		11617	529
Wisconsin	19454	78%	5578	22%	1	20%		80%	21006	64%				1084	159
Wyoming	2412	72%	917	28%		62%		38%	2681	71%		29%		699864	
l Totals	1131377	66%	571778	34%	88399	41%	128086	59%	1219776	64%	699864	36%	1919640	699864	183

#### NUMBER OF PAYPHONES OWNED BY INDEPENDENT OPERATORS AS OF MARCH 31, 2001

		Non-BOC	% (	Non-BOC	States
	Total	Area		Area	With GTE
State	Independents I	ndependents	Inde	pendents	
Alabama	8269	1332		16%	X
Alaska	3377	3377	1	100%	
Arizona	17735	2704		15%	
Arkansas	3115	1552		50%	
California	107160	3915	İ	4%	Χ
Colorado	10287	924		9%	
Connecticut	4362	2		0%	
Delaware	960	0		0%	
Dist. Of Columbia	1273	Ō	1	0%	
Florida	57480	11658	ļ	20%	X
Georgia	26770	6367		24%	
Hawaii	1128	0		0%	X
ldaho	2552	248	1	10%	X
Illinois	31350	2087		7%	X
Indiana	9026	1260		14%	X
Iowa	3143	306		10%	
Kansas	3224	952		30%	
Kentucky	9926	1905		19%	X
Louisiana	12764	1421		11%	
Maine	993	311		31%	
Maryland	6242	9		0%	-
Massachusetts	11820	1239	1	10%	<u> </u>
Michigan	19822	1087		5%	X
Minnesota	6904	2376		34%	<u> </u>
Mississippi	4994	499	] [	10%	
Missouri	9810	2968	┨ ├───	30%	X
Montana	2449	1023	11	42%	
Nebraska	5715	4012	1 1	70%	
Nevada	11476	9760		85%	$\overline{\mathbf{x}}$
New Hampshire	1785	220	1	12%	<del>- ^-</del>
New Jersey	18383	1392		8%	
New Mexico	4125	670		16%	
New York	60593	8157	H	13%	
North Carolina	21850	11674	ļ	53%	<u> </u>
North Dakota	1580	817	11	52%	<del></del>
Ohio	18094	7170	┧╞──	40%	X
Oklahoma	5676	1076	ll	19%	<del>- ^-</del>
Oregon	9618	2038	H	21%	$\overline{\mathbf{x}}$
Pennsylvania	25165	4570	11	18%	
Rhode Island	6161	793		13%	
South Carolina	13044	3947	┨┠──	30%	X
South Carolina South Dakota	1611	826		51%	<del></del>
Tennessee	14517	2671		18%	<b>—</b>
Tennessee	57959	6407		11%	X
Utah	3824	578		15%	<del>-^-</del>
Vermont	684	286	┨┝╼	42%	+
Virginia	15956	2199		14%	X
Virginia Washington	12961	2395		18%	<del> </del> <del>x</del>
West Virginia	2451	700	11	29%	<del></del>
	11617	6039		29% 52%	X
NA/inconcin				JL /0	. ^
Wisconsin Wyoming	1084	167	11	15%	

#### GTE Area Payphone Lines\*

LEC	# of Lines	Includes
Verizon California	51892	CA,NV
Verizon Florida	20300	FL
Verizon Hawaii	8205	HI
Verizon Mid States	1452	MO
Verizon Midwest	2983	IN
Verizon North		
Verizon Northwest	10620	CA,ID,OR,WA
Verizon South	18042	AL,KY,NC,SC,VA
Verizon Southwest	15369	TX
	165483	

128086	Independent payphones in Non-BOC areas
82741	50%* of payphones in GTE area are owned by independents
210827	Total independent payphones in Non-BOC areas
699864	Total independent payphones
30%	Independent payphones in Non-BOC areas

<sup>\*</sup> Estimate based on available industry data.

<sup>\*</sup> Source: FCC Statistics of Communications Common Carriers 2000/2001 Edition.

## **NORTH CAROLINA**

#### **COUNTY JAILS**

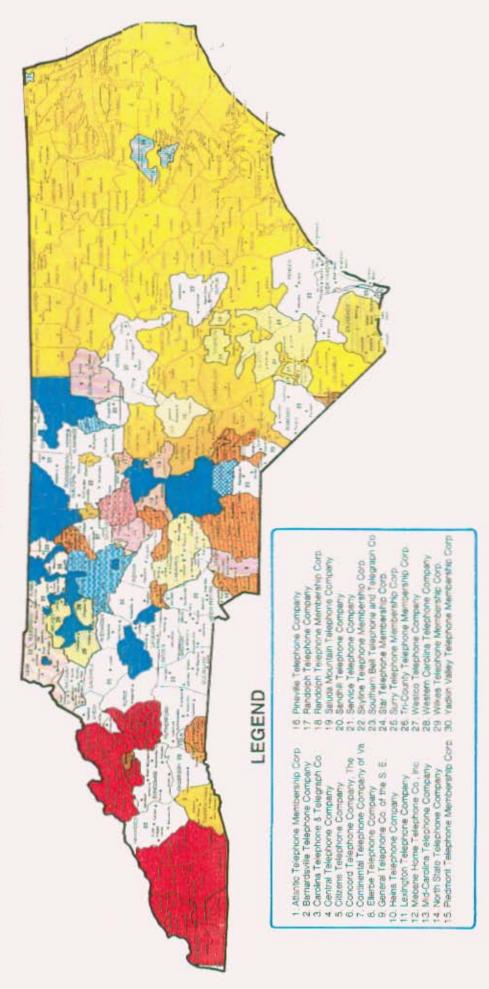
74%

#### **IN NON-BOC LEC AREAS**

BELLSOUTH AREA NO. 23 SHOWN IN WHITE ON MAP.

# OPERATING AREAS OF TELEPHONE COMPANIES

State of North Carolina



# **WISCONSIN**

#### **COUNTY JAILS**

**65%** 

#### **IN NON-BOC LEC AREAS**

SBC/AMERITECH AREA SHOWN IN ROYAL BLUE ON MAP.

#### WISCONSIN STATE TELECOMMUNICATION ASSOCIATION

Wisconsin Exchange Area Boundaries CODE American Certainy Telephone Chequamegon Trieghone Co-op., Inc. Chibardun Telephone Ca-op., Inc. Crone Communication Group Frontier STE Laterard Communications Maquata Adams Teleprone Co-op. Inc. Meaon Telephone Co-op. Hagara Telephone Company NII 121 Northwest Telephone Company PTI Communications Whitelander Temphone Correctly Telephone companies under 10,000 access lines with three expringes or less alle not shown in order West Wisconsin Telecom Columnities To County Telephone Gologiums. Wood County Telephone Co. County boundary kne. Liven Temprone Company Number of exchanges in company Copyright Wateress State Televisions in allow Association 9605 Harrandy Lone Madians Machine 2019 Varren Telaphone Co-opt

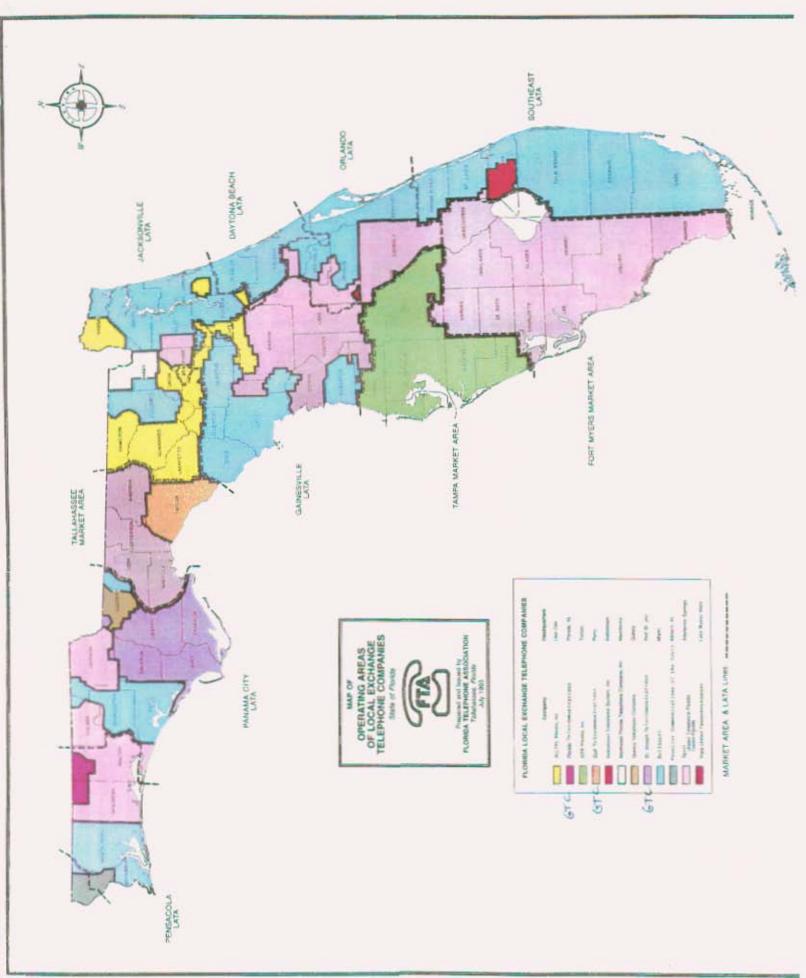
## **FLORIDA**

#### **COUNTY JAILS**

**60%** 

#### **IN NON-BOC LEC AREAS**

BELLSOUTH AREA SHOWN IN BLUE ON MAP.



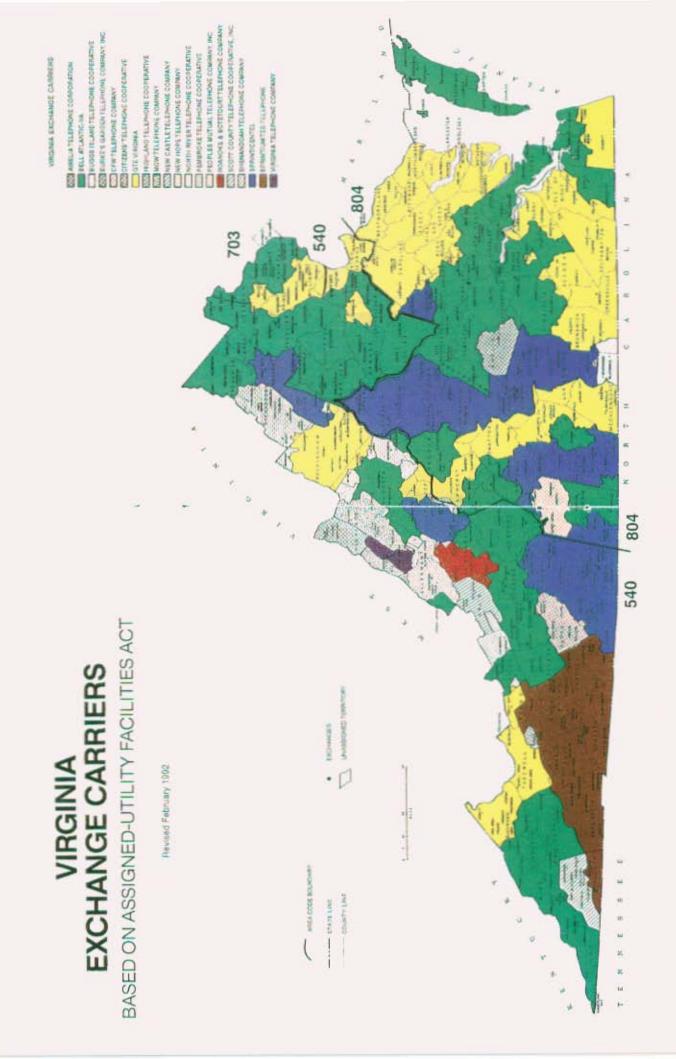
#### **VIRGINIA**

#### **COUNTY AND CITY JAILS**

**54%** 

#### **IN NON-BOC LEC AREAS**

VERIZON VIRGINIA AREA SHOWN IN GREEN ON MAP.



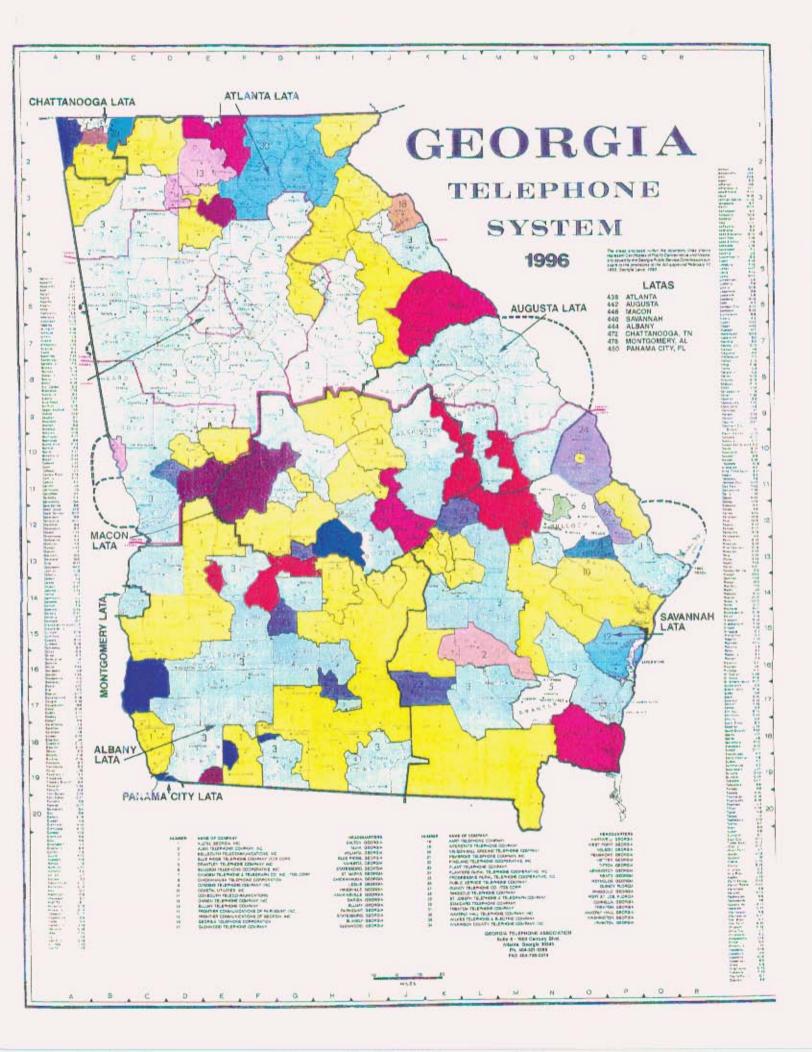
# **GEORGIA**

#### **COUNTY JAILS**

**53%** 

#### **IN NON-BOC LEC AREAS**

BELLSOUTH AREA NO. 3 SHOWN IN GREY ON MAP.



## **SOUTH CAROLINA**

#### **COUNTY JAILS**

48%

#### **IN NON-BOC LEC AREAS**

BELLSOUTH AREA NO. 29 SHOWN IN PEACH ON MAP.

